Your First Steps

The Parameters to Determine Before Your Valuation Can Begin

You have decided to have your business valued. What needs to be decided before you engage a business appraiser?

Most Importantly

Whether you or your advisors require a business to be valued for trust and estate taxes, a buy-sell transaction, or any other purpose, certain parameters must be decided. The valuation opinion will be impacted by the decisions you make.

Our article outlines these key decision points must be established up front.

How do I Choose a Valuation Date?

Typically, the Valuation Date is the date of a transaction (e.g., the date of the transfer and assignment of shares, a date specified in buy-sell contract, when restrictive stock units or options are issued) or an event (e.g., death of a business owner). If the legal transaction has occurred, or the valuation is for an estate, the valuation date is set in stone.

In other cases, when you plan the transaction, consider what is *known and knowable* at your possible transaction date(s).

- What Does Known or Knowable Mean?

  Imagine I am holding a lottery ticket for which I paid $1. How much would you pay for it? Possibly a few dollars for the value of saving travel time and gas to purchase it directly. On the day I bought the ticket, I did not *know* I had won.

  Now imagine a day later I am still looking to sell the ticket. However, now it has proven to be a $1,000,000 winning ticket. It is now *known* to be worth more than a few dollars! Similarly, what is *known and knowable* as of the Valuation Date will impact the valuation conclusion.

  A defensible valuation considers information that is known and knowable as of the Valuation Date. For example, you have a Q1-Ended Valuation Date. On the last day of Q1, you receive a call from a customer informing you of a BIG multi-year contract win, with executed contracts to follow the next day (technically, Q2, after the Valuation Date). Should the contract be considered? Was this information known or knowable? Yes, it was and must be considered in the appraisal.

The Best and Most Current Available Data

A defensible valuation is based on accrual financial statements that are as current and as complete as possible. Inventory adjustments, payroll accruals and depreciation, for example, should all be recorded. Many closely-held companies make these adjustments only at the end of the year.

We understand why. You operate your business on a cash basis. You need to know what expenses are actually paid and what sales are collected and deposited in the bank. Adjustments for inventory counts and payroll accruals don't matter for your daily operations.

Your Valuation Date may be mid-month but your company's books are not organized to be closed on an interim basis. In these cases, our professional standards allow for us to utilize the best available financial information closest to the Valuation Date. However, during the gap period between the financial information date and the Valuation Date, all information that is known or knowable must be considered in the valuation.

Why Do the Characteristics of the Subject Interest Matter?

An interest will be either controlling or non-controlling. It will be either marketable or non-marketable. These parameters impact the valuation conclusion.

A controlling interest has more value than a non-controlling interest. Control reflects the legal constructs of the company and the subject interest. While your business may be run by family or other team members, they may not have legal control. Your shareholder, operating and other agreements help determine how control applies. For a company that has voting and non-voting classes, we look at the characteristic of the subject interest to determine if it is controlling or not.

An interest that is marketable is worth more than a non-marketable one. I can sell my Microsoft shares today and be cashed out in a day or two. Studies show it takes about 200 days to sell a closely-held company like yours. This time span, along with other factors, may support a discount against the total value to determine the value of the subject interest.

An interest that does not have control can be even less marketable than one that has control.

How Do I Select the Valuation Firm to Value My or My Client's Business?

I have made my upfront decisions, how do I decide which valuation firm to engage?

The American Institute of Certified Public Accountants (AICPA) estimates that tens of thousands of Certified Public Accountants (CPAs) perform business valuations at least on a part-time basis. There are also analysts that practice out of various types of organizations including appraisal companies, valuation boutiques and consulting firms.

Professional organizations in the U.S. provide education and guidance to their members in valuing closely held business interests. Look for these associations and the credentials awarded to business appraisers.

- AICPA grants an Accreditation in Business Valuation (ABV) and Certified in Financial Forensics (CFF)
- National Association of Certified Valuation Analysts (NACVA) awards a Certified Valuation Analyst (CVA) designation
- The American Society of Appraisers (ASA) awards an Accredited Senior Appraiser (ASA) credential

Business valuations is all we do at JBVal. Attorneys, tax accountants and public accounting firms routinely entrust their clients to us.

- Our appraisers hold the professional designations of CPA/ABV/CFF, CVA, and ASA. We are dedicated to our professional development and providing the highest quality service.
- Together, our team has valued thousands of closely held businesses across hundreds of industries nationwide.
- In your engagement, we will apply our past career experience in traditional accounting, operations, and M&A to provide a swift and accurate understanding of your or your client's business. We understand small and mid-market businesses and the challenges their owners face.

555 Broadhollow Road, Suite 411 | Melville, NY 11747 | 516-794-4264
110 Front Steet, Suite 300 | Jupiter, FL 33477 | 561-369-6369
www.JBVal.com